Apigee Institute Survey Results

An Emerging Digital Divide

Current performance using data analytics, deploying apps, and operating APIs may be the fault line for an emerging “digital divide,” as companies that have been quick to master key digital capabilities increasingly pull away from those slow to make them a priority.

Ninety-nine percent (99%) of Marketing and IT executives in large companies¹ see digital capabilities having at least some impact on overall enterprise results in the next twelve months, and 99% expect the level of impact to continue or increase over the next five years.

But the impact and benefits of digital capabilities appear to be unevenly distributed. Executives with the highest confidence in their company’s current skill using data analytics, deploying apps, and operating APIs report stronger business results over the last twelve months, anticipate more impact from digital capabilities short- and long-term, and express more optimism about their competitive trajectory over the next five years than those reporting weak performance.

This survey of executive opinion points to an emerging a “digital divide,” where the first to master core competencies for competing in the App Economy increasingly pull away from the rest of the pack and widen the gap between those slow to make digital capabilities a priority.

We conclude this report with three empirical benchmarks to help business leaders chart a course for their enterprise to the right side of the digital divide based on where they self-assess today.

Are you the 99%?
Expected impact of technology-enabled capabilities such as "big data" and analytics, digital marketing, apps, or APIs on overall enterprise results

<table>
<thead>
<tr>
<th>In the next 12 months</th>
<th>Moderate 53%</th>
<th>Little 15%</th>
<th>None 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change over next 5 years</td>
<td>Increase somewhat 43%</td>
<td>Stay same 11%</td>
<td>Decrease 1%</td>
</tr>
</tbody>
</table>

¹ The Apigee Institute, in partnership with Greenberg Quinlan Rosner Research, surveyed 200 executives at companies with more than $500M USD in annual revenue via the web in April, 2013. Half of the respondents were in IT roles, half in Marketing roles. All respondents were director-level or above; 55% were C-suite executives, presidents, CEOs, or board members.
Situation Analysis

Digital capabilities are almost universally seen as relevant to overall enterprise results. But the benefits appear to be unevenly distributed. Grouping respondents based on their success using data analytics, deploying apps, and operating APIs reveals gaps in business results between the strongest and weakest performers—and reason to believe these gaps may widen in the future.

Today’s Top Digital Performers (see sidebar for definition) are more likely to report strongly outperforming others in their sector over the past twelve months on key business metrics. Compared to the weakest performers, top performers are five times as likely to report strong outperformance versus competitors bringing new products and services to market and more than three times as likely on both gross revenue and margin.

The overall pattern is consistent with expectations for digital’s areas of impact over the next 12 months: Marketing’s top two areas of impact are revenue (63%) and customer satisfaction or brand reinforcement (58%). IT expects reducing time to market (54%) and customer satisfaction (49%).

Top performers are also more confident that the company will win a stronger market position five years out. Top performers are almost one-and-a-half times more likely than the average and more than twice as likely as the weakest performers to be very confident the company will win a much stronger position (58% versus 39% and 23%, respectively). In contrast with the optimistic view of executives in general, nearly one in four (23%) of the weakest performers are worried about losing ground.

Digital, business strength correlate
Reported strong outperformance versus others in their sector over past 12 months

<table>
<thead>
<tr>
<th>Metric</th>
<th>Top Digital Performers</th>
<th>Overall</th>
<th>Weakest Digital Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bringing New Products &amp; Services to Market</td>
<td>20%</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>30%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Margin</td>
<td>20%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Market Share</td>
<td>22%</td>
<td>19%</td>
<td>15%</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>32%</td>
<td>27%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Digital strength, overall confidence correlate
Forecast for change in the company’s overall competitive position over the next five years

<table>
<thead>
<tr>
<th>Metric</th>
<th>Top Digital Performers</th>
<th>Overall</th>
<th>Weakest Digital Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very Confident, Much Stronger</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Somewhat Confident, Much Stronger</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Very Confident, Somewhat Stronger</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Somewhat Confident, Somewhat Stronger</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Worried about Becoming Weaker</td>
<td>42%</td>
<td>23%</td>
</tr>
</tbody>
</table>
Implications

Empirically observed correlation is a necessary condition—but not proof—of causality. However, we believe these findings warrant an urgent call to action for two reasons.

First, executives’ current expectations strongly imply that Top Digital Performers will do more than maintain their current advantage using digital capabilities to create value. Top performers are much more likely to not only forecast greater impact from digital on enterprise results over the next 12 months, but also bigger increases in impact over the next five years—suggesting they will pull further ahead of weak performers and those in the middle of the pack alike.

Second, the thesis that digital capabilities can drive competitive advantage is supported by other research. Peter Weill and Stephanie Woerner at MIT’s Sloan School of Management concluded that leaders in digital customer experience have higher margins and revenue growth than their competitors. A McKinsey & Company survey found one-third of C-suite executives expect digital business to increase operating income by more than 10 percent between 2012 and 2015.

We believe that wherever a company stands, it is equally important to hone already strong capabilities, commit to challenging Top Performers, or make “getting in the game” a priority.

**Who are the Top Digital Performers?**

Respondents rated their company’s current performance on a range of capabilities on a scale from 0 to 10, where 0 is very weak and 10 is very strong. We divided companies into quartiles based on the sum of their scores on three capabilities:

- Using “big data” and analytics to enhance internal processes, existing products/services, or new offers;
- Deploying apps such as mobile or tablet applications to employees, customers, or partners;
- Operating APIs to make systems and data available for self-service access or mash-ups.

“Top Digital Performers” are the top quartile; the “Weakest Digital Performers” are the bottom quartile.

**Why Data Analytics, Apps, and APIs?**

Smartphones and tablets have transformed the social and commercial relevance of software. The rise of the *App Economy* changed the basis of competition for every global enterprise. Proliferation of connected, sensing devices will soon make it possible for software to touch nearly all interactions or transactions. In what we call the *programmable world*, apps, analytics, and APIs are essential tools in the toolbox to create a virtuous cycle: delivering great experiences on any device, turning data about them into meaningful insight, and having the agility to quickly act on those insights for competitive advantage.

**Expectations imply that today’s leaders will widen the impact gap...**

Expectations for big impact over next 12 months *and* increase great deal over next 5 years

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Recommendations

We identified “Top Digital Performers” as those reporting the best performance using data analytics, deploying apps, and operating APIs. We found that reported business results and confidence in future success correlate with digital leadership. We laid out why expectations among senior executives imply a widening “digital divide” between the leaders and the laggards.

We conclude that standing still on digital capabilities is not tenable: to drive progress toward strong digital capabilities, we recommend three practices guided by three empirical benchmarks.

1. Benchmark performance against the leaders

As every business becomes a digital business, the diversity of business and operating models—B2B versus B2C, direct-to-consumer versus channel-centric, and so forth—guarantees there will be no “one size fits all” strategy for best using data, deploying apps, and operating APIs to create value.

With over 30 industries represented in this dataset, however, we can surface a pattern. Whatever the specifics of Top Digital Performer’s strategies, their self-assessed performance falls within ranges against which your company can benchmark progress toward the “winners’ circle.”

2. Accept that half-hearted commitment predicts middling results

Fewer than two percent of executives believe digital capabilities are not at all relevant to their company’s overall market position. But Top Digital Performers stand out for the intensity with which they embrace the importance of data, apps, and APIs.

Top performers are motivated by conviction that digital capabilities are critical to success. Priority is likely to predict performance: benchmarking the intensity with which digital is embraced as a competitive asset at your company compared to the top performers will give you a strong indication whether challenging the leaders on performance is a realistic goal.

Competitive intensity...

Ratings of 8-to-10 on a 10-point scale, where 10 is extremely important to overall market position
3. To excel, build alignment

In the Apigee Institute note *Programmable Enterprise, Programmable World* we argue that creating a sustainable digital ecosystem can be a powerful source of competitive advantage. Doing so requires both a technology strategy that makes it possible to operate a digital layer across the value chain and a business strategy to orchestrate incentives and points of control into a virtuous cycle driving revenue and share. Success is more likely when Marketing and IT work collaboratively to define success metrics, make investment decisions, and bring products and services to market.

Our analysis confirms a powerful relationship between strength at creating organizational alignment on digital strategy and achieving market-leading performance on digital capabilities. We analyzed skill using data analytics, deploying apps, and operating APIs in relation to performance on three capabilities for driving alignment across organizational boundaries:

- **Ensuring alignment between Marketing and IT**
- **Establishing a framework to connect digital investments more directly to enterprise KPIs**;
- **Choosing ROI criteria that drive better decisions about digital investments**

The implication: one point of increased performance aligning marketing and IT, connecting digital investments to enterprise KPIs, and choosing optimal ROI criteria for digital investments drives 0.66 points of performance using data analytics, deploying apps, and operating APIs.

![Organizational alignment: key to digital excellence](image)

Regression of digital performance on organizational alignment

Whether your company is just embarking on a digital strategy or defending a position of leadership, we recommend a systematic focus on assessing organizational alignment, exposing disagreement or ambiguity, and continuously challenging assumptions about which ROI criteria drive optimal digital investment decisions and which enterprise KPIs digital can affect.

Next Steps

Subscribe

Areas of focus for upcoming Apigee Institute publications include benchmarking the enterprise KPIs and ROI criteria reported by Top Digital Performers and reporting on best practices for building digital ecosystems. To receive the next Digital Impact Survey report and notification of other Institute publications, go to http://pages.apigee.com/institute.html.

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The Apigee Institute invites executives in Global 2000 corporations, academic researchers and domain experts who believe in the business value of mastering the art and science of creating digital ecosystems and are willing to participate in building a body of real-world data as a shared resource. To request an invitation, contact institute@apigee.com.

About the Apigee Institute

The Apigee Institute delivers strategic insights and practical recommendations based on real-world benchmarks and original research, with a focus on guiding organizations as they build strong digital ecosystems through apps, APIs and data. Learn more at http://pages.apigee.com/institute.html.

About Apigee

Apigee is the leading provider of API technology and services for enterprises and developers. Hundreds of companies including AT&T, Walgreens, Bechtel, eBay, Pearson, and Gilt Groupe as well as tens of thousands of developers use Apigee to simplify the delivery, management and analysis of APIs and apps. Apigee's global headquarters are in Palo Alto, California, and it has offices in Bangalore, London, Austin and Detroit. To learn more, go to www.apigee.com.

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